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VIEWPOINT

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Specialist mortgages and your holiday let

If you're in the market for a holiday let and need a specialist mortgage, what should you be aware of?

When might you need a specialist mortgage? The clue is in the name – if your situation is different from the normal criteria of a traditional mortgage, then a specialist product could be the answer. This especially applies to people in the market for a holiday let.

When do you need a specialist mortgage?

A specialist mortgage could apply if you're buying a high value home or already have a home and want a second charge mortgage in order to carry out renovations. They could also suit those who are self-employed, looking for a holiday or buy-to-let (BTL) property or people who do not meet the standard criteria for a mortgage. Whatever the reason, seek financial advice from an expert in the specialist mortgage field to find the best deal for your situation.

Holiday lets

When it comes to a mortgage for a property you intend to use as a holiday let, your regular income is considered in terms of the loan value, regardless of the amount you estimate might come in from the eventual rental. This is to ensure you can afford the mortgage payments during times when rents are not coming in, or when you are using the property. Although staying there yourself is one of the advantages of a holiday let, you can't live there on a permanent basis as it would affect the terms of the mortgage.

Some specialist mortgage products for holiday lets offer a maximum loan-to-value (LTV) of a certain amount for the mortgage. So, if your holiday let costs £200,000, and the LTV from the specialist product is 70%, then you will be able to get a loan of £140,000 from your lender and your deposit would need to be £60,000.

Lenders have their own criteria, which could include the following:

- Applicants need to be over the age of 21 and in stable employment.
- Your main income should not come from another rental or investment.
- Borrowers will need to prove their income exceeds a certain amount annually.
- A minimum deposit (usually around 25% of the property value).
- Rental projection from a holiday letting agent may be required, covering off-peak seasonal periods and high-demand times of year.
- The rental property itself must meet certain criteria (for example, being located within the UK and functioning as a single-family dwelling).

Holiday let vs buy-to-let

You might think that there is little difference between a holiday let mortgage and a buy-to-let mortgage (BTL), but there are a few. A BTL mortgage will contain different conditions and requirements, such as the need for an assured shorthold tenancy being in place (AST).

Using a BTL property as a holiday letting – without informing your lender – is a breach of the agreement and could undermine your mortgage contract and credit rating. The main difference between the two types of mortgages is how the loan size is calculated, and the estimates of rent the properties will receive. A holiday let will tend to bring in less rental income due to its seasonal nature.

Furnished holiday lets come with tax advantages that BTL properties do not. They are treated as a business, which means you can claim capital gains tax relief on any profits. Owners can also claim capital allowances to cover the cost of furnishings and furniture, and equipment such as refrigerators and washing machines.

There are more allowable expenses for a holiday let, compared to a BTL, including:

- ✓ letting agents' fees
- ✓ accountants' fees and certain legal fees
- ✓ mortgage interest
- ✓ building and contents insurance
- ✓ maintenance and repairs to the property
- ✓ utility bills, council tax, ground rents and service charges.

Speak to a financial adviser to work out what's best for your situation if you are looking for a specialist mortgage.

Some specialist mortgages are not regulated by the Financial Conduct Authority.

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE

Unlocking the value in your home

The number of people using equity release schemes fell last year as older homeowners grew more cautious.

Older homeowners seemed to be more reluctant to release cash from their homes in 2020, according to the Equity Release Council. Data from the trade body shows drawdowns from lifetime mortgages fell by 21% last year and 10% fewer plans were agreed than in 2019.

This drop suggests the coronavirus pandemic affected the equity release market in 2020, with activity slipping to a four-year low between April and June. Yet the end of the year was a different story – a backlog of cases meant it was unusually busy, with 11,566 new equity release plans agreed between October and December.

What is equity release?

Equity release enables homeowners who are aged 55 and over to access some of the money tied up in their homes. You can take the money as a lump sum or in several smaller amounts. Many people choose this option to supplement their retirement income, make home improvements or help children or grandchildren get onto the property ladder.

The most common way to release equity from your home is through a lifetime mortgage, which allows you to take out a loan secured on your property, provided it's your main residence. You can ring-fence some of the property value as inheritance for your family and you can choose to make repayments or let the interest roll up. The mortgage amount, including any interest, is paid back when you die or move into long-term care.

Alternatively, you can take out a home reversion plan, which enables you to sell all or part of your home for a lump sum or regular payments. You can continue living

there rent-free until you die, but you'll have to pay to maintain and insure it. You can ring-fence some of the property for later use. At the end of the plan, the property is sold and the proceeds are shared according to the remaining proportions of ownership.

Is equity release falling out of favour?

In 2020, £3.89 billion of equity was released from property, compared with £3.92 billion in 2019 and £3.94 billion in 2018, according to the Equity Release Council (5). These figures suggest people are biding their time before unlocking wealth from their homes, according to David Burrowes, the trade body's chairman (6).

Yet interest rates for lifetime mortgages are now falling, which could encourage people to take the next step. The average equity release interest rate fell to around 4% during the last three months of 2020, with the lowest rates now at around 2.3% (7). This rate is less than many of those available on 10-year fixed-rate mortgages, but higher than a lot of products with shorter fixed periods (8).

Is equity release right for you?

Deciding to release funds from your home isn't a decision to take lightly. While equity release means you have money to spend now instead of leaving it tied up in your property, it can be a complicated process. Remember that equity release often doesn't pay you the full market value for your home and it will also reduce the amount of inheritance your loved ones could receive. It's important to talk to a financial adviser who can help you decide whether the process is appropriate for you.

A Lifetime mortgage is a loan secured against your home. A Lifetime mortgage may affect your entitlement to state benefits, and it will reduce the value of your estate.

Investment Update

Energy shortages and supply disruptions continue

Stock markets bounced back in October despite an unsettled month due to global supply disruptions and energy shortages.

Financial markets were unsettled in October for a number of reasons. They include soaring energy prices due to the global shortage of natural gas supplies and high demand in Asia. Markets became calmer after Russian President Vladimir Putin indicated that his country could supply additional gas to Europe. The increase in energy prices and shipping costs prompted the Organisation for Economic Co-operation and Development (OECD) to raise its inflation forecast for the G20.

The natural gas shortage pushed up oil prices, with Brent crude rising to its highest level in seven years. The Organisation of Oil Exporting Countries (OPEC) agreed to increase oil production gradually to meet high demand as countries come out of pandemic-induced lockdowns.

US stocks rally

In mid October the S&P 500 index enjoyed its best days since July, making up for fall earlier in the month. Strong company earnings results contributed to the performance, as did the stability brought by the news of the Senate's decision to temporarily raise the federal debt ceiling.

October followed September as a month of rising inflation in the US. However, higher prices didn't deter consumers, with retail sales also up from previous months. There was another lower-than-expected jobs report, with the working economy still affected by the Delta variant and a sluggish labour market.

UK Budget news and interest rate speculation

In early October the FTSE 100 had its best first week of the month since May, helping it to a 20-month high and a recovery of most of the losses it experienced since February 2020 and the start of the pandemic.

However, the Bank of England warned that the UK economy is more vulnerable to the global rise in inflation than other G7 nations, and that it could slow the recovery. Attention remained on the Bank of England's move to raise interest rates, with economists predicting a rise as soon as early 2022. City traders are betting that it will happen before the end of this year.

In this year's much anticipated Autumn Budget, Rishi Sunak set out the government's plans to help get the economy back on track following multiple lockdowns. Policies announced included an increase in the National Living Wage and a 50% business rates discount for firms in the retail, hospitality, and leisure sectors up to a maximum of £110,000. Dividend tax rates will also rise by 1.25% from April next year which means investors will pay more on their earnings.

China's third-quarter slowdown

Asia suffered an ongoing shortage of coal, with power cuts reported across countries reliant on the fuel, like China (where coal generates two thirds of the country's electricity), and with India on alert for similar outages. Coal prices in China hit a record high during the month along with a dip in manufacturing (the latter due to power shortages and ongoing outbreaks in coronavirus cases).

The crisis surrounding the Chinese property developer Evergrande saw the company sell part of its stake in a bank to a publicly owned investment group on condition that the developer uses the proceeds to repay a loan. Figures released in October also showed that the pace of economic growth in China slowed in the third quarter compared with the previous year.